

Nonexchange Accounts Receivable

The Federal Accounting Standards Advisory Board (FASAB) in their Statement of Federal Financial Accounting Standards (SFFAS) No. 7 generally specifies a modified cash basis as the standard for accounting nonexchange revenue for duties and taxes. Although a fuller application of accrual accounting is permitted, it requires disclosure.

Background

Based on the GAO audit in the early 90s, Customs set up year-end procedures to account for accruals. This procedure was designed to adapt our cash accounting to accrual accounting for year-end statements. For accounts receivable, accruals were based on the actual collections related to entries for merchandise that was released but not paid at year-end. When SFFAS No 7 was issued, Customs made no changes to these basic procedures even though a modified cash basis was now permitted.

In light of the recent three-day close requirements and the possibility of a monthly IASS statement, it would seem to be a good time to review our method of recognizing accounts receivable. Nevertheless, it should be noted that a change in the method used to recognize accounts receivable would have no bearing on Customs material weakness in its core financial systems. That is, Customs would still need ACE to have a customer-based subsidiary ledger.

Discussion

SFFAS No. 7 was established with the underlying belief that historically the major two non-exchange revenue agencies, the Internal Revenue Services and Customs were on the cash basis of accounting. This is reflected clearly in paragraph 49 "Taxes and duties also should be measured on the cash basis, and the cash basis amount (s) should be shown in conjunction with the accrual amounts recognized."

Paragraph 53 states that "Accounts receivable should be recognized when a collecting entity establishes a specifically identifiable, legally enforceable claim to cash or other assets through its established assessment processes to the extent the amount is measurable. This definition of accounts receivable from nonexchange transactions require the standard for recognition of accounts receivable to be amended so that such receivables are not recognized on the payment due dates but rather on the basis of the completion of the assessment process."

In Customs case, the entry summary would logically equate to the assessment document. So the date of entry summary would be when the assessment process is completed. But Customs does not wait until entry summary to recognize accounts receivable. It recognizes account receivables at time of merchandise release. This fuller application of accrual accounting concepts is permitted under SFFAS No. in paragraphs 49 and 64. But paragraph 64 also states that the collecting entity, as part of its disclosures, “should describe that change in accounting and point out how it differs from that prescribed by this standard.” I am not aware of how Customs presently fulfills this disclosure.

From the discussion above, it would appear that Customs has a bit of latitude in the reporting of its accounts receivable on financial reports. Thus, I have attempted to list the pros of both approaches in the following table:

The Present Accrual Approach Pros	Modified Cash Basis Approach Pros
Familiar to staff	Easier to compile. More precise if accrual period increases (IASS). This period could potentially increase to the entire month.
Consistent with historical approach	Consistent with IRS
Familiar to users	Doesn't require estimates for 3-day close. May require restatement of prior year's financial data

Recommendation

Nonexchange accounts receivable are unique assets due the Government. The FASAB recognized this when they issued SFFAS No. 7. Users also must recognize the difference between nonexchange accounts receivable and normal accounts receivable (due from exchange revenue) as the IRS, by far the largest nonexchange revenue producer, does not accrue these receivables until tax returns are filed or assessments are made. If Customs followed a similar approach, we wouldn't establish receivables until entry summary information is received. A process that would be both 1) far simpler than the present accrual method and 2) would allow for more precision in amounts regarding 3-day closes and future extensions of the entry summary process.

For fiscal year 2000, Customs reported net nonexchange accounts receivable of \$948.5 million. This compares with IRS's net nonexchange receivables of \$20 billion. Thus, Customs has less than 5% of the total nonexchange receivables.

In summary, I believe it would behoove Customs to begin reporting accounts receivable on the modified cash basis. It would be simpler, more accurate and consistent with the IRS.

Note: *This proposal has been briefly discussed with auditors from the Office of the Inspector General but will require further discussion and approval prior to adopting this practice.*